

**GUIDE FOR CONDUCTING EXTERNAL QUALITY
CONTROL REVIEWS OF THE AUDIT OPERATIONS
OF OFFICES OF INSPECTOR GENERAL**

APRIL 1997

Audit Committee

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PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY

GUIDE FOR CONDUCTING EXTERNAL QUALITY CONTROL REVIEWS OF THE AUDIT OPERATIONS OF OFFICES OF INSPECTOR GENERAL

PREFACE

This document presents the standards and detailed guidance for conducting external quality control reviews of the audit operations of Offices of Inspector General. This guide was developed to promote consistency in conducting the reviews in accordance with the April 1997 policy statement issued by the Audit Committee (see Appendix I). An external review requires the exercise of considerable professional judgment on the part of the review team. The guidance contained herein is advisory in nature and is not intended to supplant the review team's professional judgment as to what approach to take or what specific procedures need to be performed in specific reviews.

This guide has been updated for standards, laws, regulations and other directives affecting OIG audits through December 31, 1996. The Audit Committee welcomes any suggestions for further improving the external review program, in general, or this guide, in particular.

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GENERAL CONSIDERATIONS

DEFINITIONS

1. **Internal Quality Control System.** Operating policies and procedures established by the OIG to provide reasonable assurance that it (1) has adopted, and is following, applicable auditing standards; and (2) has established, and is following, adequate audit policies and procedures. Internal quality control system policies and procedures encompass the elements of staff qualifications, independence, audit performance and internal review.
2. **Internal Review or Quality Assurance Program.** An internal evaluation program that is performed by OIG personnel (either within the audit office or within another component of the OIG) and is designed to assess whether the OIG carries out its work in accordance with established policies and procedures, *Government Auditing Standards*, applicable Office of Management and Budget Circulars, and appropriate statutory provisions applicable to the OIG. A quality assurance program could also have as an objective an assessment of whether the work was carried out economically, efficiently and effectively.
3. **External Quality Control Review.** A review of an OIG's audit function by a Federal audit organization not affiliated with the OIG being reviewed, that satisfies the objectives specified below.
4. **Individual Audit.** Any audit for which an audit report was prepared by the OIG or by an Independent Public Accountant (IPA) under a direct procurement contract to the OIG. When an audit report is based on a series of individual audits, the consolidated audit report and each of the individual reports could be considered an "individual audit."

OBJECTIVE OF THE EXTERNAL QUALITY CONTROL REVIEW PROGRAM

5. The objective of the PCIE external quality control review program is to foster quality audits by OIGs through an independent assessment of the effectiveness of the internal quality control system in providing reasonable assurance that applicable audit standards and requirements are being followed. The program is intended to be positive and constructive rather than negative or punitive.

STAFFING AND QUALIFICATIONS

6. The number of staff assigned to the review team is dependent on a number of factors including, but not limited to, the size and geographic dispersion of the OIG being reviewed, the size of the audit universe, and the scope of the review. Generally, the staffing required will include a full-time team leader and the equivalent of at least three other full-time staff members. Performing and reporting on an external quality control review requires the exercise of considerable professional judgment. For this reason, the team leader should be a senior manager

with appropriate audit background and experience. The rest of the team should be senior auditors or audit managers. It is recommended that the team leader be at or above the GS-15 grade level.

7. The staff assigned to conduct the review collectively should possess adequate professional proficiency for the tasks required. Reviewers should be qualified and have current knowledge of professional standards and the government environment and government auditing relative to the work being reviewed.

8. When selecting the team, consideration should be given to the types and complexity of audits that will be reviewed and to any specialized skills that may be needed (for example, EDP or financial statement auditing skills). Also, some OIGs are using electronic working papers to document their audits to varying degrees. Review teams should be capable of reviewing such work. Because of these considerations, final decisions on team make-up may be deferred until after some of the preliminary planning and presite procedures are accomplished. Nothing in this section should be construed to limit the flexibility of the team leader in planning and performing the review.

INDEPENDENCE

9. The reviewing OIG and review team members should meet the independence standards of *Government Auditing Standards*. Team members should be independent of the OIG being reviewed, its staff and its auditees whose audits are selected for review. Former employees employed within the past 2 years by the OIG being reviewed should generally not be selected to be part of the review team (although review team members may want to consult with former employees about one or more aspects of the OIG's operations). To ensure that independence is maintained both in appearance and in fact, the reviewing OIG can not review the OIG that conducted its most recent review.

WORKING PAPERS

10. Working papers should be prepared to document the work performed and the conclusions reached during the course of the review. The checklists included in this guide will be available in electronic format and review teams are encouraged to keep their working papers in electronic format as much as possible.

11. The working papers should be retained by the reviewing OIG at least until the subsequent external review is completed. The external review working papers should be subject to the same custody and safeguard policies that the reviewing OIG applies to its audit working papers. At a minimum, these policies should include safeguards against unauthorized use or access to the working papers, particularly working papers that contain confidential information. As indicated below under Memorandum of Understanding (MOU), the reviewing and reviewed OIGs should discuss and reach agreement up front on how the reviewing OIG will respond to requests for copies of the report and access to the working papers by third parties.

WORKING ARRANGEMENTS AND ADMINISTRATIVE RECORDS

12. The team leader should arrange with the OIG to have adequate work space for the review team. The team leader should also request that the OIG designate a facilitator. Generally, it is contemplated that the review team will be from one OIG. To the extent that travel is necessary to accomplish the objectives of the review, the reviewing OIG should travel at its own expense. If the team is made up of members of different OIGs, the team leader should assure that the members are aware that their own organizations are to pay for their travel unless other arrangements have been made.

13. The reviewing OIG should maintain administrative records on the staff days and calendar days it takes to do the review as well as the travel and other costs incurred.

MEMORANDUM OF UNDERSTANDING (MOU)

14. A memorandum of understanding should be prepared to assure that there is a mutual understanding regarding the fundamental aspects of the review. The following are topics that may be covered in the agreement.

- ! **Scope of the Review.** Page 5 of this guide contains a discussion of the minimum scope of review that is necessary to meet the *Government Auditing Standards* external review standard and PCIE policy statement (basic review) and the possibility of expanding the review to cover additional areas of an OIG's audit operations. The agreement should specify whether the review is to be a basic review and, if not, what additional areas are to be covered by the review.
- ! **Staffing and Time.** If desired, the agreement could include a provision addressing the planned staffing and time frames.
- ! **Preliminary Findings.** If desired, the agreement could include provisions addressing the need for timely interim discussion of preliminary findings. Added consideration should be given to reaching agreement on each potential issue at the earliest point in the review process. In some cases, written statements of condition may be useful aids in discussing the results of the reviews of individual audits.
- ! **Reporting Results.** The MOU should include what agreements are reached regarding (1) the provision of a draft report and letter of comments, (2) the holding of an exit or closeout conference(s), (3) report review procedures, and (4) who is going to sign the report. See page 12 for a discussion of these items.
- ! **Requests for Reports, Letters of Comment and Working Papers.** The agreement should state how the reviewing OIG will respond to requests for access to, or copies of, the working papers from the reviewed OIG and third parties such as: Congressional committees, individual members of Congress or their staffs, the press, GAO, OMB, other organizations that may be in an adversarial relationship with the reviewed OIG (such as

an auditee), members of the public, and others. The MOU should also cover the handling of requests for the final report and letter of comments.

15. Other topics may be covered as needed. When preparing a memorandum of understanding, care should be taken to not limit the ability of the review team to conduct the work necessary to accomplish the objectives of the review. If a team is precluded by the MOU from performing the work necessary to gather sufficient evidence to accomplish the objectives of the review, the MOU should be revised. If it is not, the review team should report a scope limitation. Such a scope limitation may result in the reviewed OIG not meeting the *Government Auditing Standards* quality control standard.

DUE PROFESSIONAL CARE

16. The review team should exercise due professional care and sound professional judgment in all matters relating to planning, performing, and reporting the results of the external quality review.

PLANNING AND PERFORMING THE EXTERNAL QUALITY CONTROL REVIEW

OBJECTIVES

17. Except as described in paragraph 22, the objective of an external quality control review is to determine whether the OIG's internal quality control system is in place, and operating effectively to provide reasonable assurance that established policies, procedures, and applicable auditing standards are being followed. Specifically, the review is intended to provide the review team with a reasonable basis for expressing an opinion on whether, during the year under review:

- ! The OIG's internal quality control system for its audit work was designed in accordance with the PCIE quality standards for audits (see appendix I).
- ! The OIG's quality control policies and procedures were being complied with in order to provide the OIG with reasonable assurance of conforming with *Government Auditing Standards*.

18. The review may be expanded to address other objectives if agreed to by the review team and the OIG being reviewed.

SCOPE OF THE REVIEW

19. At a minimum, the scope of the external review shall cover the elements of the OIG's internal quality control system that are designed to provide reasonable assurance that the audits it performs, or for which it directly contracts, are carried out in accordance with *Government Auditing Standards* and established policies and procedures. These elements of quality control are staff qualifications, independence, audit performance and internal review. The review should cover a one year period. This would normally be the year comprised of the two most recent semiannual reports to Congress. However, a different period can be chosen if there is a reason to do so. The scope of the review can be expanded to other areas of the audit operations if mutually agreed upon.

REVIEW APPROACH

20. The approach advocated by this guide is to:

- ! Gain an understanding of the reviewed OIG's audit operation and its internal quality control system.
- ! Gain an understanding of the OIG's internal quality assurance program, including a review of any internal reports.
- ! Using the knowledge obtained from the preceding steps, assess review risk and select the offices and audits to be reviewed and the nature and extent of tests to perform.

! Review functional areas and individual audits.

21. Other approaches may be taken, however, it should be kept in mind that the objectives of the review described above should be met.

LIMITED SCOPE REVIEWS

22. *Government Auditing Standards* recognizes that for reviews of smaller organizations, it may be more effective or efficient to place primary emphasis on reviewing individual audits rather than the internal quality control system. In this case, the objective of the review is to determine whether the OIG followed applicable standards in the conduct of its audit work. The guidance contained herein should be modified and adapted as appropriate to meet this modified objective.

PRESITE REVIEW STEPS

23. The following steps can be performed prior to going on-site. This is particularly recommended when performing the steps on-site would involve the incurring of travel costs.

a. **Audit Quality Control Policies and Procedures.** The review team should request the OIG to complete and submit the questionnaire entitled *OIG's Audit Quality Control Policies and Procedures*. This questionnaire is presented in Appendix A and asks the OIG to identify the policies and procedures relevant to the various standards. This will provide the team with relevant descriptions of the OIG's quality control policies and procedures.

b. **Semiannual Reports to Congress.** The review team should also request a copy of the two most recent semiannual reports to Congress. The semiannual reports will provide information regarding the nature and volume of audit work as well as other matters that may help the review team understand the environment in which the reviewed OIG operates. It will also assist with selecting individual audits for review.

c. **Other Information or Documentation.** The review team should also consider obtaining and reviewing the annual audit plan(s) for the period covered, a printout of the audit tracking system, an organization chart, a roster of staff (including series, grades, date of last promotion), professional designations, information about advanced degrees or special skills, information about the training budget and OIG or regionally sponsored training, and continuing education summary for all staff for the 2 most recent years.

d. **Prior External Review.** The review team should request a copy of the most recent external review report and make arrangements to review the related working papers. The purpose of reviewing the prior report is to see what was covered, what was found and what may need to be followed up on. The review of the prior working papers may be helpful in meeting the objectives of the current review. The reviewers should compare what is in the prior report and working papers to the information received on the questionnaire to (1) see if recommendations were implemented, and (2) follow up on other differences. The working

papers may also provide information concerning where to concentrate the current review effort.

e. OIG's Internal Quality Assurance Program. The team leader should obtain a copy of the documentation of the OIG's internal quality assurance program and the most recent internal evaluation report(s). If the team is planning to make use of the internal quality assurance process in planning its review, selecting audits or sites to be reviewed, or to provide evidence as to the OIG's compliance with its internal quality control system, the team leader should consider obtaining this information so the steps described on the following pages under the headings of "Review of Internal Quality Assurance Program," "Review of Internal Quality Assurance Reports," can be performed prior to going on site.

UNDERSTANDING QUALITY CONTROL POLICIES AND PROCEDURES

24. Appendix B contains the questionnaire to be completed by the team to help document the team's understanding and evaluation of the adequacy of the OIG's quality control policies and procedures designed to provide reasonable assurance of compliance with established policies, procedures and applicable auditing standards. The questionnaire should be completed based on the answers provided by the OIG to the questionnaire, *OIG's Audit Quality Control Policies and Procedures*, discussed in paragraph 23.a, supplemented as necessary by (1) inquiry of management and appropriate staff, and (2) review of documentation of policies and procedures and their implementation. Evaluation of compliance with policies and procedures applicable to individual audits will be performed during the review and assessment of the internal quality assurance program and individual audits.

REVIEW OF INTERNAL QUALITY ASSURANCE PROGRAM

25. The purpose of reviewing the internal quality assurance program is to determine whether the program is adequately designed to (1) meet the objectives of quality assurance and (2) produce reports on which the external review team can rely. If it is found during the review of the design of the quality assurance program that it contains material weaknesses, a finding to this effect should be reported. Such conditions should also be considered when deciding how much reliance can be placed on the internal review reports. Appendix C contains guidance on assessing the design of the internal quality assurance program. Steps to determine whether the program is being carried out as designed are included in the reviews of internal quality assurance reports and individual audits.

REVIEW OF INTERNAL QUALITY ASSURANCE REPORTS

26. The purpose of reviewing the internal quality assurance reports is to gather evidence about the OIG's compliance with established policies, procedures, and audit standards. Assuming that the quality assessment program is adequately designed, the internal quality assurance reports may provide the external review team with (1) an overall picture of the OIG's compliance with relevant policies, procedures and standards, (2) evidence regarding whether any deficiencies found in the prior external review were continuing or were corrected, and (3) information regarding

areas of greatest external quality control review risk. If, based on procedures performed, the review team finds that the internal review program and reports can be relied upon, the review team may be able to use the results of the internal reviews that cover the same period as the external quality control review as direct evidence to support its opinion on the operating effectiveness of the internal quality control system. While the use of the results of internal reviews as direct evidence can reduce the nature and/or extent of testing performed by the external review team, it is not intended that the external review team's opinion on the quality control system be based solely on evidence provided by the internal reviews.

27. The time and effort to review internal quality assurance reports will probably vary widely in practice. Some OIGs may issue organizationwide internal evaluation reports while others may issue reports on individual offices or jobs. Depending on the circumstances, it may be more efficient to not review the internal quality assurance reports but to go directly to reviewing individual audits. This may be the case when (1) the design of the quality assurance program is unlikely to produce reports that are useful to the external review team for planning purposes or for forming conclusions on the operating effectiveness of the internal quality control system, or (2) the OIG operation is small enough that a sufficient number of individual audits can be reviewed in the time allotted to obtain the needed support for the required assurances.

28. Appendix D contains general guidance on reviewing internal quality assurance reports.

ASSESSING EXTERNAL REVIEW RISK

29. Based on the information obtained in the preceding steps, the team should assess the external review risk associated with the nature of the OIG's work and its quality controls. External review risk is the risk that the review team:

- a.** Will fail to identify significant weaknesses in the OIG's internal quality control system and/or compliance with that system,
- b.** Will issue an inappropriate opinion on the OIG's internal quality control system and/or compliance with that system, or
- c.** Will reach an inappropriate decision about the findings to be included in or excluded from the letter of comments, or whether to issue a letter of comments.

30. External review risk consists of the following two parts:

a. The risk, consisting of inherent risk¹ and control risk², that an individual audit will fail to comply with professional standards and/or the OIG's quality control system will not prevent such failure.

b. The risk (detection risk) that the review team will fail to detect the design or compliance deficiencies in the OIG's quality control system that either result in the OIG having less than reasonable assurance of conforming with professional standards or constitute conditions whereby there is more than a remote possibility that the OIG will not conform with professional standards on individual audits.

31. Inherent risk and control risk relate to the OIG's audit work and its quality control system and are assessed by the review team. Detection risk relates to the effectiveness and extent of the external review procedures and can be reduced by reviewing more offices or audits, and increased by reviewing less offices or audits. The lower the inherent and control risk, the higher the detection risk that the review team can tolerate, while keeping overall external review risk at an acceptably low level. Conversely, the higher the inherent and control risk, the lower the detection risk must be driven by increasing the number of offices or audits that must be reviewed, to keep overall external review risk at an acceptable level.

32. The team should assess inherent and control risk at the OIG audit organization-wide level and also at the office level and type of audit level. Based on this assessment, together with other factors discussed below, the review team determines the offices and audits to be selected for review to reduce overall external review risk to an acceptably low level. The assessment of these risks is qualitative and not quantitative.

SELECTION OF OFFICES AND INDIVIDUAL AUDITS

33. The selection of offices involves the exercise of considerable professional judgment. In addition to the risk assessment discussed above, factors to consider include the following:

- ! Number, size, and geographical dispersion of the offices.
- ! Changes in organizational structure, control and leadership.
- ! Number, type, and importance of reports issued by location.
- ! Degree of centralized control over regional and branch offices.

¹ Inherent risk is the likelihood that an individual audit will fail to comply with professional standards assuming the organization does not have a quality control system. For example, inherent risk would normally be higher in OIGs (or individual offices) that conduct mostly large complex audits or many audits of a nonrecurring nature, than in an OIGs (or individual offices) that conduct mostly small, routine audits or many audits with a similar scope and objectives.

² Control risk is the risk that an organization's quality control system will not prevent the performance of an individual audit that does not comply with professional standards. It consists of two parts: the organization's control environment and its quality control policies and procedures. The control environment represents the collective effort of various factors on establishing, enhancing, or mitigating the effectiveness of specific quality control policies and procedures. The control environment reflects the overall attitude, awareness, and actions of management concerning the importance of quality work and its emphasis in the OIG.

- ! Coverage and results of internal evaluation reports and prior external reviews (i.e., types of opinions rendered, problems identified, implementation plans and actions taken).
- ! The need to verify the results of internal evaluation reports.

34. The review team should strive to include a sufficient number of offices that are representative of the OIG with greater weight given to offices with a higher assessed level of review risk.

35. The degree of centralized control over regional and branch offices and the audit reports they issue may have an impact on the number of offices and audits selected for review. If the degree of centralized control is high, fewer offices/audits may need to be visited/selected and vice versa.

36. Coverage, currency and results of prior external reviews and internal reviews can be considered in various ways. If prior reviews show that one or more locations had problems in the past, the team may want to review a sample of such locations to see if corrective actions have been implemented and, if so, if they were effective. For example, if training was provided to the location's staff or if new procedures were given, the review team may want to go back to see if these actions were effective. If the prior problems at a site were limited to audits under one supervisor who is no longer there, selection of that site for follow up would probably not be appropriate (although the site could be selected for other reasons). On the other hand, the team may want to select offices that haven't been covered in past reviews to see how they perform.

37. If the review team plans to rely on the results of the OIG's internal quality assurance reports to provide direct evidence to support its opinions and assurances (see paragraph 26), then it must select a sample of the offices (and audits) that the internal reviewers reviewed to determine if the appropriate conclusions were reached. In doing so, the team should select offices (and audits) that the internal review found to be in accordance with the standards as well as those they found to be deficient.

38. In determining the number of and which reports to review, it should be kept in mind that the objective of doing the review is to obtain evidence regarding the performance of the OIG overall, not each individual office. Therefore, team leaders should not feel that they need to select a certain minimum number of reports at each location. The number of reports at each location should be based on consideration of all of the factors. Consideration of the types of audits includes (1) identifying the types of audit work the OIG performs and contracts for (e.g., grants, contracts, external, internal, etc.) and (2) selecting audits that are representative of the major types of audit work, with greater emphasis on types of audits with a higher assessed level of review risk. Audit reports that are considered significant should be selected over more routine, less significant audits.

NATURE AND EXTENT OF TESTS

39. The nature and extent of tests of compliance should be sufficient to provide a reasonable basis for concluding whether the OIG's quality control policies and procedures were complied with to provide the OIG with reasonable assurance that its audit work was conducted in accordance with applicable professional standards. These tests should include:

- a.** Review of individual audits, including the reports and working papers for conformance with professional standards and internal quality control policies and procedures.
- b.** Interviewing appropriate professional and other staff to assess the level of understanding and compliance with the quality control policies and procedures.
- c.** Reviewing other evidential matter demonstrating compliance with quality control policies and procedures, such as accessibility of appropriate reference material and administrative, personnel and continuing professional education records.

40. Ordinarily, the review of individual offices' establishment of and compliance with quality control procedures is conducted on-site. However, having one or more offices send the appropriate documentation (e.g. audit working papers and reports, CPE records, etc.) for review at a central location is permitted, if (and only if) the team leader determines that the objectives of the review can be met without visiting the office(s) to be reviewed. This is more likely to be the case at OIGs where the quality control policies and procedures are established centrally and where there is centralized control and supervision. The distribution of policies and procedures through local and wide area networks, electronic bulletin boards and electronic mail as well as the use of electronic working papers may also be conducive to performing reviews of one or more offices without making a site visit.

REVIEW OF INDIVIDUAL OIG AUDITS

41. The purpose of reviewing individual audits is to determine whether established policies, procedures, and applicable auditing standards were followed. Appendix E contains a checklist for the review of individual financial audits. Appendix F contains a checklist for the review of individual performance audits.

42. The review of individual audits should include review of auditor's reports, financial statements (when applicable), working paper files, and correspondence, as well as discussions with professional staff of the OIG. The review of audits should ordinarily include all key areas of the audits selected to determine whether well-planned, appropriately executed, and suitably documented procedures were performed in accordance with professional standards and the OIG's quality control policies and procedures.

43. For each audit reviewed, the review team should document whether anything came to its attention that caused it to believe that:

- a.** Where applicable, the financial statements were not presented in all material respects in accordance with generally accepted accounting principles (GAAP) or, if applicable, an other comprehensive basis of accounting.
- b.** The OIG did not have a reasonable basis under applicable professional standards for the report issued.

- c. The documentation did not support the report issued.
- d. The OIG did not comply with its quality control policies and procedures in all material respects.

REVIEW OF IPA MONITORING

44. For audits performed by IPAs under direct contract to the OIG, the purpose of the review is to determine if the OIG has quality control policies and procedures for assuring the work meets standards and contractual requirements and whether they were followed. Appendix G contains a checklist for reviewing the OIG's monitoring of audits for which it directly contracts with IPAs.

REPORTING REVIEW RESULTS

GENERAL

45. The reporting on the results of an external review consists of the report on the external review and, when applicable, a letter of comments. The external review report contains the review team's opinion on the OIG's quality control system. The letter of comments contains the findings and recommendations for improvements to the quality control system.

46. Generally, the process leading to the issuance of a final report and letter of comments is something that should be discussed and agreed to prior to the start of the review. At a minimum, the process should include a procedure for the OIG to have the opportunity to comment on the report and the review team's findings and recommendations. The review team should consider the comments before finalizing their report and letter of comments.

47. The details and mechanics of the reporting process are left up to the parties involved. Items that should be considered include the following:

- ! Whether there should be on-site close out conferences with senior field office staff in each office reviewed and/or exit conference with senior audit management. (It is highly recommended that such conferences be held, particularly if the review team is contemplating issuing a qualified or adverse opinion.)
- ! Whether informal draft findings should be presented during the review (and to who), or held until the draft report and letter of comments are presented to the AIGA. Providing informal findings during the review may help speed up the report finalization process.
- ! What internal review process should take place within the reviewing OIG and who will sign the report.
- ! How long the reviewed OIG should have to provide written comments and who in the OIG should provide them.

48. To minimize the time that elapses between the end of fieldwork and the issuance of the final report and letter of comments, the review team should promptly prepare the draft and final reports and letters and the reviewed OIG should promptly prepare its response to the draft.

REPORTS ON EXTERNAL REVIEWS

49. Report Content. A final written report should be prepared and addressed to the Inspector General. The report should contain the following information:

- ! Scope of the review, including any limitations thereon, and any expansion beyond the basic review.

- ! A description of the objectives and characteristics of an internal quality control system.
- ! An opinion on whether the OIG's internal quality control system was designed in accordance with the quality standards established by the PCIE and was being complied with during the year under review to provide reasonable assurance that established policies, procedures and applicable auditing standards were being followed.
- ! If a qualified or adverse opinion is issued, the report should include a description of the reason(s) therefor and a reference to the letter of comments. The report should not refer to the letter of comments if an unqualified opinion is issued.

Appendix H contains illustrative reports.

50. Considerations Regarding the Type of Opinion to Issue. In forming its opinion, the review team should consider whether it was able to perform all necessary procedures to accomplish the objectives of the review and the nature, significance and pervasiveness of deficiencies found.

a. Scope Limitations. A qualified report should be issued when the scope of the review is limited by conditions that preclude the application of one or more review procedures considered necessary in the circumstances and the review team cannot accomplish the objectives of those procedures through alternate procedures. For example, a review team may be able to apply appropriate alternate procedures (e.g., select another audit) when the working papers for one or more audits selected for review are unavailable for legitimate reasons (e.g., being held by a U.S. attorney to support litigation). On the other hand, if the unavailable audit was the only one performed during the year by an office for which the team assessed review risk as high, the team ordinarily would be unable to apply alternate procedures.

b. Nature, Significance and Pervasiveness of Deficiencies. The overriding objective of a system of quality control is to provide the OIG with reasonable assurance of conforming with professional standards in the conduct of its audits. When a review team encounters failures to conform to professional standards, considerable professional judgment is required to determine whether an unqualified or modified opinion is appropriate. The review team should first try to determine the cause of the failure. The failure to conform with professional standards on an audit may be the result of an isolated human error and, therefore, does not necessarily mean that the review report should be qualified or adverse. However, when the review team believes that the probable cause of a significant failure to conform with professional standards on one audit is systemic in nature and, therefore, may exist in other audits (for example, a failure to provide or follow appropriate policies for supervision of the work of assistants), the review team should consider carefully the need for a qualified or adverse report.

- i. Causes that might be systemic in nature and might, therefore, affect the review team's opinion, include the following (not all-inclusive):

- ! The failure is related to a type of audit in which the OIG or audit team had little or no experience and did not have appropriate training or outside assistance.
 - ! The failure is related to a matter covered by a professional pronouncement that the OIG had failed to identify as being relevant to its audits.
 - ! The failure should have been detected if the OIG's quality control policies and procedures had been followed.
 - ! The failure should have been detected by the application of quality control policies and procedures commonly found in other similar OIGs.
- ii. The review team must consider the pattern and pervasiveness of the deficiencies found and their implications for compliance with the OIG's system of quality control as a whole, in addition to their nature and significance in the specific circumstances in which they were observed. In some cases, the design of the OIG's system of quality control may be deficient. In other cases, there may be a pattern of noncompliance with a quality control policy or procedure. On the other hand, the types of deficiencies noted may be individually different, not individually significant, and not directly traceable to the design of or compliance with a particular quality control policy or procedure.
 - iii. In order to give appropriate consideration to the evidence obtained and to form appropriate conclusions, the review team must understand the elements of quality control and exercise professional judgment. The exercise of professional judgment is essential because the significance of the evidence obtained cannot be evaluated primarily on a quantitative basis. In assessing whether deficiencies found with the design of internal quality control policies and procedures are significant, the question should be asked, "Does the OIG have reasonable assurance that the objective of internal quality control (i.e., compliance with applicable standards, etc.) in the deficient area is met?" In assessing whether the system of internal quality control is functioning as prescribed, the team should consider the degree to which it found such policies and procedures were not being followed.

c. Design Deficiencies. There may be circumstances when the reviewer finds few deficiencies in the work performed by the OIG and yet may conclude that the design of the OIG's quality control system needs to be improved. For example, an OIG that is growing rapidly and adding personnel and, perhaps new responsibilities may not be giving appropriate attention to necessary policies and procedures in areas such as personnel management (hiring, assigning personnel to audits, and advancement). A reviewer might conclude that these conditions could create a situation in which the OIG would not have reasonable assurance of conforming with professional standards in one or more important respects. However, in the absence of deficiencies in the audits reviewed, the reviewer would ordinarily conclude that the matter should be addressed in the letter of comments.

LETTER OF COMMENTS

51. A letter of comments should be issued in connection with an external quality control review when there are matters that resulted in a modification to the standard form of report or when there are matters that the review team believes resulted in conditions being created in which there was more than a remote possibility that the OIG would not conform with professional standards on its audits. The letter should include comments on such matters even if they did not result in deficiencies on the audits reviewed. The letter should report any significant noncompliance with professional standards. When audit deficiencies, particularly instances of nonconformity with professional standards, are reported that are attributable to deficiencies in the design of the OIG's system of quality control or to noncompliance with significant policies and procedures, that fact should be noted in the comment. The letter should provide reasonably detailed summaries of the findings and recommendations so that the OIG can determine what actions it should take.

52. The letter of comments should be addressed, dated, and signed in the same manner as the report on the external review, and should include the following:

- a.** A reference to the report on the external review, indicating, where applicable, that the report was qualified or adverse.
- b.** A description of the purpose of the external review.
- c.** A statement that the review was performed in accordance with standards and guidelines established by the PCIE.
- d.** A description of the limitations of a system of quality control .
- e.** The findings and related recommendations. This section should be separated between those findings, if any, that resulted in a qualified or adverse report and those that did not. In addition, the letter should identify, where applicable, any comments that were also made in the letter of comments issued on the OIG's previous external review.
- f.** A statement that the matters discussed in the letter were considered in determining the opinion on the system of quality control.

53. Although isolated instances of noncompliance with the OIG's quality control policies and procedures ordinarily would not be included in a letter of comments, their nature, importance, causes (if determinable), and implications for the OIG's quality control system as a whole should be evaluated in conjunction with the review team's other findings before making a final determination.

54. When presenting findings of weaknesses in the design of the internal quality control system, the team should describe (1) the condition (what controls are lacking) and (2) the effect (e.g. the actual instances of nonconformance with professional standards found or the potential of nonconformance with professional standards).

55. When presenting findings of noncompliance with internal quality control policies and procedures the team should put the findings in proper perspective by relating the extent of the noncompliance to the number of cases examined. When the team finds instances of nonconformity with professional standards that are related to noncompliance with quality control policies and procedures, this information should be included in the finding.

56. Finding presentation should be both complete and fair. Exaggeration of a finding's significance or the extent of noncompliance found should be avoided. If deficiencies were found at only one of several sites reviewed, the report should so indicate so as not to infer that the deficiencies were organizationwide. The tone of the report should be positive and constructive rather than overly negative. The report should stress the opportunity for improvement in the future rather than criticism of the past. Recommendations should be made where improvements are needed or should be considered. Recommendations should be for improvements in the internal quality control system's policies and procedures and should take into account cost versus benefit considerations.

57. Views of Responsible Officials. One of the best ways to assure the objectiveness, accuracy, and completeness of the findings is to obtain the views of responsible officials. When apparent deficiencies are found during the course of the review, the team should attempt to discuss the situation with the appropriate responsible official with knowledge of the area. In the case of weaknesses in the design of policies and procedures, this may not be possible or practical until the exit conference and the views of responsible officials will be those included in the responding official's (e.g., Deputy Inspector General or AIG) comments. In the case of noncompliance with established policies, procedures, and applicable auditing standards, the team should attempt to discuss the situation with the audit supervisor or RIGA (or other audit office manager or director) to assure that all facts are known. If these officials have additional facts or explanations that bear on the matter but do not change the team's mind concerning the occurrence of noncompliance, the officials' views should be incorporated into the draft report. If the responsible official with firsthand knowledge of the situation does provide views in sufficient time to be included in the draft report, the review team should carefully analyze the responding official's comments, when obtained, to determine whether the initial comments included in the draft report should be revised.

58. Noteworthy Accomplishments. In keeping with the constructive nature of the external review program, the team should report any particularly noteworthy accomplishments found during the review. Examples of such items would be particularly creative and effective audit approaches or procedures or particularly efficient and effective quality control procedures. Other OIGs may benefit from this information.

REPORT DISTRIBUTION AND FOLLOW-UP

59. Upon completion, the final report on the external review and, if applicable, the letter of comments, should be addressed to the Inspector General. Any decisions concerning implementation of any recommendations in the report rest solely with the reviewed OIG.

Subsequent external reviews should look at areas where problems were found in the past to determine if the same problems exist during the subsequent period.